

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2019/2020

**BFN3114 – TAX PLANNING**  
(BO1)

25 OCTOBER 2019  
9 a.m. – 11 a.m.  
(2 Hours)

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**INSTRUCTIONS TO STUDENTS**

1. This Question paper consists of 8 pages excluding the cover page with 3 Questions only.
2. Attempt **ALL** questions. The distribution of the marks for each question is given at the end of each question.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

a) In most day-to-day transactions, it is clear whether or not a trade is being carried on by a person. However, where a person involves in buying and selling either once only or a limited number of times, it may be difficult to decide whether the articles were bought as an investment, stock in trade or personal used. As a result, in 1954, the Radcliffe Committee established in UK look at the issue and identified characteristics of a trade and see how the transaction in question measures up to them. The attempts to identify the characteristics, named as 'badges of trade' list out factors, or important characters in determining whether the taxpayer is in fact carrying on a trade or not.

**Required:**

Explain in detail any five factors of the badges of trade, including relevant cases in your answer.

(10 marks)

b) Mr. Thomas Phua is a citizen of Singapore. In 2010, he was assigned to assist branch in Johore, Malaysia for few years. His pattern of stay in Malaysia was as follows:

Year	No. of days stayed in Malaysia
2010	95
2011	130
2012	101
2013	152
2014	99
2015	31
2016	345
2017	15
2018	218
2019	187

He only stayed for 15 days in the year 2017. The period of stay in the year 2017 was linked by to his period of stay in Malaysia of 345 days in 2016.

**Required:**

For Malaysian income tax purposes, determine Mr. Thomas Phua tax resident status for the relevant years of assessment, explaining your basis for the determination and quoting the relevant provisions of the Income Tax Act 1967(as amended).

(10 marks)

[Total: 20 marks]

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## QUESTION 2

Mr. Chew runs a mini market, registered under the name 'Chew Enterprise'. The business has been in operation since 2013 in Kajang, Selangor. The income statement of the business for the period from 1.1.2018 to 31.12.2018 is as follows:

	Note	RM	RM
Sales			675,000
Less: Cost of sales			
Opening stock		150,000	
Purchases	1	<u>480,000</u>	
		630,000	
Closing stock		<u>239,000</u>	391,000
Gross profit			284,000
Add: Other income			
Single tier dividend	2		5,000
Gross rental	3		14,000
Dividend from Thailand	4		<u>2,000</u>
			305,000
Less: Expenses			
Advertisement expense	5	5,000	
Travelling and entertainment	6	14,000	
Interest on hire purchase	7	3,700	
Mini market rental expense	8	27,600	
Salaries to staff	9	120,000	
Repair and maintenance	10	10,000	
Holiday paid for Mr. Chew's daughter		3,000	
Cash donation to an approved institution		2,000	
Depreciation		27,000	
Insurance expense	11	9,200	
Bad and doubtful debts	12	16,500	
Professional & legal fees	13	2,000	<u>240,000</u>
Net profit before tax			<u>65,000</u>

### Notes to the accounts:

1. Purchases of stocks include the cost of new shelves for the shop and cash register of RM3,000 and RM4,500 respectively.
2. Single tier dividend refers to a dividend received from an investment of shares in few publicly listed companies in Bursa Malaysia.
3. Gross rental refers to rental income of an apartment rented out to staffs of Tujuan Gemilang Sdn Bhd, Cyberjaya. Besides income, during the year, Mr. Chew paid RM1,000 for quit and rent assessment of the apartment.

Continued...

4. Dividend from Thailand refers to foreign income received from investment of shares in companies listed in Thailand Stock Exchange.
5. Advertisement expense of RM1,000 is incurred to promote the business products through flyers and leaflets, whereas the remaining RM4,000 is incurred for employee of the year award night.
6. Traveling and entertainment includes lunches (wholly related to sales) for customers and light refreshment for suppliers amounting to RM315 and RM400 respectively.
7. Interest on hire purchase arises from the purchase of business motor vehicles with 10 years of instalments.
8. Mini market rental expense includes rental payment for January, February and March 2019 of RM3,900.
9. Salaries to staff include remuneration of RM12,000 for a member staff who is certified disabled by the relevant authority.
10. Repair and maintenance expense includes cost to renovate the main entrance of the mini market of RM5,000.
11. Insurance expense is the insurance premium paid to cover the trading stocks, plant and machinery of the business.
12. Bad and doubtful debts consists of (i) general provision of bad debts of RM10,000; (ii) trade bad debts written-off of RM3,500 (iii); and bad debts written-off of RM3,000 being the advancement to a previous staff who had passed away in December 2018.
13. Legal and professional fees are incurred for accounting and audit fees of RM1,000 and road summon of RM1,000.

**Additional information:**

Capital allowances for the year of assessment 2018 is at RM20,000. The balancing allowance and balancing charge incurred during the year was RM2,951 and RM3,560 respectively.

Unabsorbed business losses brought forward from the year of assessment 2017 was RM27,650.

**Continued...**

**Required:**

Based on the information given, compute the total income of "Chew Enterprise" for the year of assessment 2018.

*Note: Start your computation with profit before taxation figure and indicating 'NIL' in the appropriate column for item that does not require adjustment.*

**[Total: 40 marks]**

**QUESTION 3**

a) Mr. Taufiq works as an engineer with an established construction company in Kuala Lumpur. He is married to Mrs. Murni, a full time housewife. For the year 2018, he has received the following remuneration terms:

- Gross salary (January 2018 to December 2018) of RM114,000, of which 10% are contributed to Employee Provident Fund (EPF).
- Bonus: Two months' salary payable on 31 December 2018
- Cost of living allowance (COLA) of RM6,000 per annum.
- A new car costing RM97,600 but without fuel benefits. The car was used equally for official duty and private activities.
- A fully furnished house for the whole year for which the company paid RM2,000 per month, made up of rental at RM1,700 and RM300 for the furnishing.
- Oversea leave package to Bali, Indonesia for which his employer paid for the air tickets, meals and accommodation of RM800, RM500 and RM1,000 respectively.
- Local leave passage to Cherating, Terengganu and Pangkor Island, Perak for RM700 and RM800 respectively.

Beside the above, he is also provided with free medical benefits. In December 2018, he received neuro specialist treatment at a private hospital. The treatment cost of RM2,900 was paid by his employer.

For the year 2018, Taufiq paid RM200 per annum as subscription for his professional membership with the Malaysian Board of Engineers. The couple has five children. The first child is 22 years old and is studying degree program in a local university. The second child is 17 years old and physically disabled child as certified by the Department of Social Welfare. She is currently attending a special school in Cheras, Selangor. The other three children are below 12 years old and schooling at primary school in Cyberjaya, Selangor.

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Mr. Taufiq takes an education insurance for the five children and paid a total premium of RM4,800 a year. During the year, he purchased books, newspapers and magazine in total of RM1,500. Mr. Taufiq and Mrs. Murni made a cash donation of RM1,000 and RM500 to a local approved charitable institution during the year. He also contributed to Social Security Organisation Scheme (SOCSO) of RM250 per annum.

**Required:**

Compute the tax payable of Mr. Taufiq for the year of assessment 2018.

*Note: Please indicate by the use of the word 'nil' for any item referred to in the question for which no adjusting entry needs to be made in the tax computation. Round up all figures.*

(37 marks)

b) Why in tax it is important to distinguish the status of the taxpayer as a self-employed or as an employee?

(3 marks)

**[Total = 40 marks]**

**End of question.**

**APPENDIX 1****TAX RATES AND ALLOWANCES**

The following tax rates, allowances and values are to be used in answering the questions.

**Income tax rates for resident individuals for the year assessment 2018**

	<b>Chargeable Income</b>	<b>Tax Rate</b>	<b>Income Tax Payable</b>
	<b>RM</b>	<b>(%)</b>	<b>RM</b>
<b>First</b>	<b>2,500</b>	<b>0</b>	<b>0</b>
Next	<u>2,500</u>	0	<u>0</u>
<b>On</b>	<b>5,000</b>		<b>0</b>
Next	<u>5,000</u>	1	<u>50</u>
<b>On</b>	<b>10,000</b>		<b>50</b>
Next	<u>10,000</u>	1	<u>100</u>
<b>On</b>	<b>20,000</b>		<b>150</b>
Next	<u>15,000</u>	3	<u>450</u>
<b>On</b>	<b>35,000</b>		<b>600</b>
Next	<u>15,000</u>	8	<u>1,200</u>
<b>On</b>	<b>50,000</b>		<b>1,800</b>
Next	<u>20,000</u>	14	<u>2,800</u>
<b>On</b>	<b>70,000</b>		<b>4,600</b>
Next	<u>30,000</u>	21	<u>6,300</u>
<b>On</b>	<b>100,000</b>		<b>10,900</b>
Next	<u>50,000</u>	24	<u>12,000</u>
<b>On</b>	<b>150,000</b>		<b>22,900</b>
Next	<u>100,000</u>	24	<u>24,000</u>
<b>On</b>	<b>250,000</b>		<b>46,900</b>
Next	<u>150,000</u>	24.5	<u>36,750</u>
<b>On</b>	<b>400,000</b>		<b>83,650</b>
Next	<u>200,000</u>	25	<u>50,000</u>
<b>On</b>	<b>600,000</b>		<b>133,650</b>
Next	<u>400,000</u>	26	<u>104,000</u>
<b>On</b>	<b>1,000,000</b>		<b>237,650</b>
Exceeding	<u>1,000,000</u>	28	...

**Non-Resident Individual Rate for employment income (2018)**

Non-resident person (other than companies): 28%

**Reliefs**

	RM
Self	9,000
Disabled taxpayer self- additional relief	6,000
Medical expenses expended for parents (max)	5,000
Medical expenses expended on self, spouse or child with serious diseases [including up to RM500 for medical examination (max)]	6,000
Basic supporting equipment for disabled self, spouse, child or parent	6,000
Fees expended for skills or qualifications (max)	7,000
Spouse relief (if he/she has no source of income or elects combined assessment)	4,000
Disabled spouse	3,500
Child (each)	2,000
Disabled child (each)	6,000
Child- over 18 years of age and studying in higher learning institution	8,000
Disabled child studying in higher learning institution	14,000
Amount deposited to SSPN for his child (max)	6,000
Life insurance premiums and contributions to approved provident funds	6,000
Medical or education insurance premiums for self, spouse or child (max)	3,000
Lifestyle (books, sports equipment, computer, broadband and gym fee)	2,500
Social Security Organisation (SOC SO) Scheme	250
Breastfeeding equipment	1,000
Parental care: father & mother (each)	1,500
Fees paid to childcare center & kindergarten	1,000

**Rebates**

	RM
Chargeable income not exceeding RM35,000	
Individual	400
Individual who has been given a deduction in respect of a spouse or former wife	400



**Prescribed value of benefits in kind: Car and fuel scale**

Cost of car (when new)	Prescribed annual value of private usage of car	Fuel per annum
RM	RM	RM
Up to 50,000	1,200	600
50,001 – 75,000	2,400	900
75,001 – 100,000	3,600	1,200
100,001 – 150,000	5,000	1,500
150,001 – 200,000	7,000	1,800
200,001 – 250,000	9,000	2,100
250,001 – 350,000	15,000	2,400
350,001 – 500,000	21,250	2,700
500,001 and above	25,000	3,000

The value of the car benefit equal to half of the prescribed annual value (above) is taken if the car provided is more than five (5) years old, but the value of the fuel provided remains unchanged. Where a driver is provided by the employer, the value of the benefit per month is fixed at RM600.

**Other benefits**

Household furnishings, apparatus & appliances

Semi-furnished with furniture in the lounge, dining room, or bedrooms

- RM70 per month

Semi-furnished with furniture as above and one or more of the following:

Air-conditioners, curtains, carpets

- RM140 per month

Fully furnished premises

- RM280 per month

Domestic servant

- RM400 per month

Gardener

- RM300 per month

**Capital allowances**

	Initial allowance Rate (%)	Annual allowance Rate (%)
Motor vehicles and heavy machinery	20	20
General plant and machinery	20	14
Office equipment, furniture and fittings	20	10
Industrial building	10	3
Computer, information technology equipment & computer software	20	40

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